Operating Budget – A Primer

I. ***Process for Making Requests for Operating***

Every biennium (the State's two-year budget cycle), Indiana public colleges make operating budget requests for their respective campuses. First, these requests are made to the Commission for Higher Education. Following review and discussion by the Commission, the Commission then makes recommendations to the Indiana General Assembly (specifically the House Ways and Means Committee and the Senate Finance Committee). Additionally, each college is invited by the General Assembly to make its request directly to the General Assembly.

In determining a recommendation to the General Assembly, the Commission must find a responsible level to recommend that balances the Commission's principles, the highest priorities of each college, and the relation (in terms of priority and funding levels) to the overall higher education budget request.[1] Following public discussion of the overall budget requests with the Commission, Commission staff will make a recommendation to the Commission for approval at a public meeting (typically the November meeting prior to the budget session). Following Commission approval, the Commission's recommendation is made to the General Assembly.

For the upcoming 2007-09 biennium, the colleges are requesting a total of $272 million in new operating appropriations.

II. ***Elements of the Operating Budget***

A. ***Debt Service*** (the cost of paying the principal and interest on bond issues) for capital projects (buildings) previously authorized by the General Assembly and approved by the State Budget Committee. Although this is a capital item because it is an ongoing expense much like a mortgage payment, it historically has been a part of the higher education operating budget in Indiana.

B. ***Plant Expansion*** (the cost of utilities and maintenance for new space) for capital projects previously authorized by the General Assembly and approved by the State Budget Committee. Although this is a capital item because it is an ongoing expense much like utility bills, it historically has been a part of the higher education operating budget in Indiana.

C. ***Enrollment Growth*** for all campuses (except Indiana University Bloomington, Purdue University West Lafayette, and Indiana State University)[2]. The formula simply is ½ of the average state appropriation per student for all colleges, which currently equates to $3500/student. For example, if a campus grows by 100 students (annual enrollment), the campus would be due an additional $350,000. A reverse process occurs if a campus experiences a decrease in annual enrollment.

D. ***Research Adjustment*** is a state incentive to encourage and increase the capacity of Indiana University Bloomington, IUPUI Medical School, and Purdue University West Lafayette in successfully pursuing competitive research opportunities that bring funds into the state. The formula simply is 1/3 of the increase in Federal and Corporate Grants that the university received

[1] It should be noted that there currently is no formal process or publication of state-to-state comparisons, which makes it difficult to draw comparisons.
[2] From 1991-94, Ball State's enrollment was level, and the institution fit the "stable campus" model. With the institution's strategic direction to strengthen admission criteria, enrollment significantly dropped with the University anticipating a 4-8 year process of restoring the previous enrollment level. Under existing policy, Ball State will be funded as if it were a "changing campus" (able to receive enrollment growth funds) until in-state enrollment reaches 17,500 on-campus annual FTE students.

in the previous two years. The incentive currently does not include foundation grants because by and large they are not competitive.

E. ***Inflation*** is for salaries (including faculty) and supplies and equipment. Historically, inflation increases have been a flat percent consistent with the cost of living index. In the last biennium (2005-07), the Commission chose not to request an increase in inflation preferring instead to support increases in enrollment growth and research adjustment.

F. ***New Programs or New Initiatives*** are requested by the colleges, occasionally recommended by the Commission, and infrequently funded by the General Assembly. For the upcoming biennium (2007-09), a number of the New Programs requests are targeted at economic development. New initiatives this year include this Purdue's Advanced Manufacturing Initiative, new faculty for programs at Ivy Tech, and a Motorsports degree at Indiana State University.

G. ***Degree Completion*** is a state incentive that was recommended by the Commission in the last two biennia (2003-05 and 2005-07) as a means of encouraging campuses to focus on and increase their total number of college graduates and/or college completion rates. While the request generated a lot of interest in the General Assembly, it was not funded in either biennium because of the State's tight budget constraints.

H. ***Base Adjustments*** have been requested by campuses, which consider themselves under funded. The Commission generally has not addressed this issue as by choosing different comparison groups many campuses can find a way to claim they are under funded.

I. ***Line Items*** are designated for a specific purpose and generally are designated because either the institution or the General Assembly wanted to be clear the funds were for a specific purpose. Examples of this include Purdue's Agriculture Extension Program and the Geological Survey at Indiana University. This year IU is requesting its Life Science Initiative and Ivy Tech is requesting Fast Track (high school completion program) as line items.

III. Process Used by the Indiana General Assembly in Appropriating College Operating Funds

The process is similar to other legislative items (law-making process) undertaken by the General Assembly with the exception that public hearings are conducted by the State Budget Committee in the fall preceding the budget session.

IV. Current Operations

As discussed in greater detail within the New Construction Primer document, Debt Service and Plant Expansion payments have first priority to funds appropriated in the Operating Budget. Ultimately, this leaves fewer funds available for typical operating expenses. In recent years, the Commission has expressed its interest in funding increased performance such as increasing enrollment and expanding research rather than paying for inflation. Additionally, Commission members have expressed interest in furthering this concept by providing an incentive for degree completion.